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FISCAL IMPACT STATEMENT

LS 6261 **NOTE PREPARED:** Jan 19, 2008
BILL NUMBER: SB 1 **BILL AMENDED:** Jan 17, 2008

SUBJECT: Limits on School and Child Welfare Levies.

FIRST AUTHOR: Sen. Lubbers **BILL STATUS:** 2nd Reading - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: GENERAL **IMPACT:** State & Local
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) This bill terminates, beginning January 1, 2010: (1) the medical assistance to wards property tax levy; (2) the family and children's property tax levy; (3) the children's psychiatric residential treatment services property tax levy; (4) the children with special health care needs property tax levy; (5) the maximum permissible tuition support levy; and (6) the county supplemental school financing property tax levy. The bill specifies that the termination of the tuition support levy does not prohibit a school corporation from imposing a referendum tax levy, and it makes related changes.

Effective Date: July 1, 2008.

Explanation of State Expenditures: (Revised) The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and nonbusiness personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

The elimination of property tax levies would result in a reduction of state expenditures for PTRC and homestead credit beginning in CY 2010. Subject to appropriation, the state savings is estimated at $1,646 M in CY 2010, or $823 M in FY 2010 (half year).

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) As of January 1, 2008, 52 counties provide additional Homestead credits that are paid with proceeds from a combination of county adjusted income taxes (CAGIT), county option income taxes (COIT), and county economic development income taxes (CEDIT). This includes traditional COIT-funded homestead credits, CEDIT-funded credits to mitigate inventory shifts, and credits from the new LOIT options available beginning in 2008.

The elimination of levies under this proposal would:

1. Reduce the cost of COIT-funded homestead credits, thereby increasing the amount of COIT that would be available as certified shares;
2. Reduce the cost of CEDIT-funded homestead credits which would result in a reduced CEDIT tax rate; and
3. Increase the percentage of net levies that would be replaced by the new "LOIT #2" credits.

Explanation of Local Revenues: (Revised) Beginning with taxes payable in 2010, this bill would eliminate the property tax levies for several funds as follows.

Fund Name	Est. 2010 Gross Levy ($M)
County Family and Children	$ 440.8
County Children's Psychiatric Residential Treatment Services	18.7
County Medical Assistance to Wards	14.4
Children with Special Health Care Needs	8.4
School General	2,247.6
Supplemental School - Lake	3.8
Supplemental School - Dearborn	0.6
Total	**$ 2,734.4**

The elimination of these levies would mean a reduction in property tax revenue for counties and school corporations in the above amounts.

In addition to the loss of property tax revenue, there are two secondary impacts. First, the elimination of property tax levies would reduce the cost of the property tax circuit breaker.

Second, part of the revenues that are distributed based on property tax levy would be redistributed from counties and school corporations to other taxing units. These revenues include excise tax and local option income tax.

The current "excise taxes" (auto excise, commercial vehicle excise, and financial institutions taxes) are distributed to the fund level. The following chart shows the excise tax collections for CY 2006 for the funds with eliminated levies.

Fund	2006 Excise Tax Distribution ($M)
County Family and Children	$29.0
County Children's Psychiatric Residential Treatment Services	1.5
County Medical Assistance to Wards	1.1
Children with Special Health Care Needs	0.7
School General	197.9
Supplemental School - Lake	0.1
Supplemental School - Dearborn	0.3
Total	**$230.6**

The excise tax currently distributed to these funds would be redistributed to the remaining funds with property tax levies. Schools and counties would have a reduction in revenue in their respective funds beginning in CY 2010.

This proposal would not impact a school referendum levy.

Debt for child services would be paid from the county debt service fund under this bill.

The bill would allow TIF replacement levies to include the amount of TIF proceeds that would be lost due to the elimination of levies.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: All local civil taxing units and school corporations.

Information Sources: Local Government Database.

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